MANAGEMENT CHALLENGES

October 2022

Farm Credit Administration
Office of Inspector General

MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires the Inspector General to provide a summary perspective on the most serious management and performance challenges facing the Farm Credit Administration (FCA or Agency) and briefly assess the Agency's progress in addressing those challenges. These challenges may reflect ongoing vulnerabilities identified by the Office of Inspector General (OIG) over recent years as well as new and emerging issues. The chart below lists the top management challenges facing FCA and the pages following the chart provide more depth on each challenge.

Regulating and Supervising a Complex Farm Credit System	Operating with Less Than an Ideal Board Member Composition	Continuous Monitoring and Contingency Planning	Recruiting and Retaining Talented Employees

CHALLENGE ONE: ***Regulating and Supervising a Complex Farm Credit System***

Regulating and Supervising a Complex Farm Credit System

As the Farm Credit System (System) becomes more complex, FCA will face challenges to address evolving risks, threats, and conditions. The System continues to be impacted by changes in the supply chain, labor market, interest rates, cybersecurity threats, the collective farm debt, and climate. This varied environment creates new needs for examination and supervision resources. Because System conditions can change quickly, FCA will need to maintain forward-looking plans to ensure staff are equipped with the unique, specialized skills to provide effective oversight. Technology, data analytics, and risk management systems and approaches also continue to become more sophisticated. FCA will be challenged to ensure it has the right tools to keep pace with the developments across the System.

Merger activity also impacts complexity across the System. Merger activity has increased, which creates both benefits and risks. FCA will be challenged to ensure it has appropriate resources to fully understand and address this changing landscape. Risk management tools, specialized training, and institutional knowledge will become increasingly important as institutions merge and become more complex. Further, as institutions grow, FCA will need to continue to identify ways to better understand the impact of merger activities. Specifically, effective supervision and oversight will require a nuanced understanding of the impact of changes in geographic diversification, risk concentration, and organizational structure on the System as a whole. The complexity of these factors is further increased by the unique issues that impact agricultural lending.

Consolidation may also affect other oversight areas. As the number of institutions declines, FCA will be challenged to develop policies, guidance, and standards that address the unique circumstances of both large and small institutions. The diversity across institutions will require the Agency to understand policy impacts to avoid adverse impacts. While large institutions have more risk and complex organizational structures, smaller institutions have more limited resources and different approaches to compliance. The Agency will be challenged to find the appropriate balance and ensure institutions remain safe and sound as their size or structure change.

Overall, changes across the System will place greater demands on Agency resources. Timely and thorough identification of corrective actions and appropriate follow-up are critical to preventing the escalation of issues and maintaining safety and soundness. The agency also needs to be proactive in order to foresee and respond to challenging scenarios. Internal and external factors can lead to significant changes in condition in short periods of time. The Agency must be agile to monitor and prevent such conditions to protect the System. The Agency must also find the appropriate resource balance. Specifically, the Agency will be challenged to maintain a thorough and robust oversight plan while preparing for unique or difficult oversight scenarios. The Office of Examination’s FY 2023 National Oversight Plan includes six focus areas: risk management practices in an uncertain environment; phaseout of the London Interbank Offered Rate; current expected credit losses implementation; young, beginning, and small farmer and rancher programs; standards of conduct; and small, low-risk associations.

CHALLENGE TWO: *Operating with Less than an Ideal Board Member Composition*

Operating with Less Than an Ideal Board Member Composition

FCA faces another challenge in operating for an extended period of time with less than a full complement of the Board in non-expired terms.

The Farm Credit Act of 1971, as amended (Act), established FCA as an independent agency in the executive branch and vests responsibility for managing the Agency in the FCA Board. The Board should consist of three presidentially appointed, Senate-confirmed members who are broadly representative of the public interest, with no more than two being members of the same political party. Board members serve in six-year terms, which are staggered and fixed so that a term expires every two years regardless of when the member was appointed. The Act provides for board members to continue serving after expiration of their term until a successor is appointed and confirmed.

The above notwithstanding, the FCA Board operated as a two-member body from the death of Board Chairman Dallas P. Tonsager in May 2019 until the October 2022 swearing in of Vincent G. Logan to the Board. The resulting vacancy, which lasted over three years, was the longest since the current structure of the Board was established by the Farm Credit Amendments Act of 1985. While the continued service of Board Chairman Glen R. Smith and Board Member Jeffery S. Hall—both of whose terms have expired—provided the quorum necessary for the Board to transact business, this extended vacancy left the Board without the benefit of a third member to weigh in on the most pressing and important decisions facing the Agency. It also left the Board without the bipartisan composition contemplated by the Act, as Chairman Smith and Member Hall are members of the same political party.

Although the Board once again has a full complement of members, the fact that two members' terms are expired is less than ideal. Board members in such a 'holdover' status may face uncertainty as to the length of their continued service, which is dependent upon timing of the appointment of their successor. This uncertainty—which Board policy has mitigated in part by allowing certain holdover members to perform their official duties from outside the Washington, D.C., area—in turn makes the guarantee of a quorum even more tenuous. Without a quorum, a single-member Board would be unable to establish general policy or promulgate rules and regulations, leaving the Agency less able to carry out its statutory mission. Moreover, extended holdover positions have the potential to undermine the independent status of the Agency as a Board member without a fixed term may appear more vulnerable to the vagaries of politics.

OIG acknowledges that this challenge is largely outside the Agency's power to address, as Board members are subject to presidential appointment and Senate confirmation.

CHALLENGE THREE: *Continuous Monitoring and Contingency Planning in FCA's Information Technology Security Program*

Continuous Monitoring and Contingency Planning

As noted in OIG's Fiscal Year 2022 Federal Information Security and Modernization Act Audit Report, FCA's information technology security program faces significant challenges in meeting the requirements of continuous monitoring and contingency planning. Cybersecurity threats and vulnerabilities present significant challenges to information technology security. These challenges require a security program that is responsive, agile, and forward-looking. Security events and breaches across the world highlight the prevalence of cybersecurity threats and risks and the importance of robust detection and prevention processes.

Continuous Monitoring

FCA is behind on the implementation of certain requirements in meeting continuous monitoring standards—requirements that involve costly resources to ensure successful implementation. Notwithstanding the challenge of resources, the Agency is planning to implement Continuous Diagnostics and Mitigation tools.

Information technology and security requirements and guidance frequently change. It is imperative that FCA's systems are able to adapt and change as needed. The new efforts and resource allocations that are planned should enhance its ability to get back on track with updates and enhancements to meet requirements and standards. However, implementation in these areas is not easy and will continue to challenge the Agency.

Contingency Planning

FCA is also challenged by contingency planning efforts. While safety and security are everyone's responsibility, the Agency designated two offices with the majority of emergency preparedness and continuity of operations responsibilities—the Office of Agency Services and the Office of Information Technology. The COVID-19 pandemic posed challenges for the FCA workforce and for contingency planning. The new working environment added a new layer of complexity given the reliance on personally managed internet connections and the resources and support needed for a secure environment while keeping the health and safety of FCA staff the utmost priority. As a result, certain contingency planning efforts and testing of plans and systems became less of a priority, leaving certain aspects of the Agency's contingency planning program ineffective.

The Agency will continue to be challenged on meeting all the requirements of an information technology security program. However, regularly testing the contingency plans and information systems is an important way to ensure that services provided by information systems are able to operate effectively and without excessive interruption. The Agency has indicated there are plans to complete contingency plan testing in 2023.

CHALLENGE FOUR: Recruiting and Retaining Talented Employees

A significant management challenge facing all FCA offices is recruiting and retaining a talented workforce. The Agency's success depends greatly on its ability to recruit, retain, and develop an able workforce. The Agency will need to be proactive in its human capital management with competitive recruiting and retention programs and developing a diverse and inclusive workforce and workplace environment.

Recruiting and Retaining Talented Employees

The Agency is facing a competitive employment market where employees, especially early career employees, will choose an employer with an in-office/telework hybrid workplace model over an employer with rigid onsite work requirements. Employees throughout the public and private workforces adapted to working from home productively during the COVID-19 pandemic. The federal workforce has largely returned to the office while retaining some telework flexibilities. Employees want to retain the telework and scheduling flexibilities gained during the pandemic.

The Agency is challenged with retaining and developing expertise in a tight employment market. Early and mid-career employees are looking not only for a flexible workplace, but competitive compensation, evermore so in inflationary times. In a tight employment market, early career employees can more easily "chase the dollar" and move on to the next employer for a marginal increase in salary. As a regulatory agency with a non-General Schedule salary structure, the Agency has competitive federal salaries. However, FCA is also competing against private sector compensation and benefit packages. The Agency will need to continually implement and enhance salary and benefit programs that make its employees want to stay after they are recruited.

Workforce training and development can also help ensure that FCA maintains a vital, experienced staff. Programs such as job sharing, rotational details, intra-office micro-assignments, and mentorships can promote career development as well as cultivate a sense that FCA is an employer rich with career opportunities.

Diversity is another important aspect of recruiting and retaining a talented workforce in a competitive employment market. The Agency must continually assess and implement strategies, such as evaluating FCA's recruiting data, to reach its diversity and inclusion (D&I) goals. The Agency will need to employ various tools that identify and reduce potential barriers to D&I, while continuing to foster appreciation in its workforce with programs that celebrate D&I and promote outreach and education.

Employees are FCA's most valuable asset. In this employment market, the Agency must continue to seek ways to remain competitive through its compensation and benefits package, and by offering a work environment that promotes a work-life balance through flexible schedules and telework and fosters diversity, equity, inclusion, and accessibility. The Agency added new employee benefits during FYs 2022 and 2023, including two pay increases and enhanced leave and student loan benefits for younger employees in an effort to retain its workforce. FCA recognizes diversity and inclusion by periodically publishing D&I news articles and hosting events throughout the year.